

Audit and Risk Committee

22 June 2020

Report title	Annual Internal Audit Report 2019-2020	
Accountable director	Claire Nye, Director of Finance	
Originating Service	Audit	
Accountable employee	Peter Farrow	Head of Audit
	Tel	01902 554460
	Email	peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable.	

Recommendation for noting:

The Committee is asked to note:

1. The contents of the Annual Internal Audit Report and the overall opinion that “based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes”.

1.0 Purpose

- 1.1 The purpose of this report is to provide the Audit and Risk Committee with an annual internal audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control processes.

2.0 Background

- 2.1 This report gives a brief description of the role of Internal Audit, the control environment within which it operates, its compliance with the Public Sector Internal Audit Standards and a summary of the work carried out during the year to 31 March 2020.

3.0 Progress

- 3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendations in this report.
[GE/10062020/E]

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report.
[TS/10062020/W]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Climate Change and Environmental implications

- 7.1 There are no climate change and environmental implications arising from the recommendations in this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from the recommendations in this report.

9.0 Corporate landlord implications

- 9.1 There are no corporate landlord implications arising from the recommendations in this report.

10.0 Health and Wellbeing implications

10.1 There are no health and wellbeing implications arising from this report.

11.0 Covid implications

11.1 The impact of Covid-19 on the delivery of the 2019-2020 Internal Audit Plan for 2019-2020 is set out within this report.

12.0 Schedule of background papers

12.1 None.

13.0 Appendices

13.1 Appendix 1: Internal Audit Annual Report 2019-2020

Internal Audit Annual Report 2019-2020

Appendix 1



1. *Introduction*

Our internal audit work for the period from 1 April 2019 to 31 March 2020 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Council's governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the Annual Governance Statement the Council is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Council as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the council may rely, could include:

- The work of the External Auditors (Grant Thornton)
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third party work designed to alert the Council to areas of improvement
- Other external review agencies (i.e. Ofsted, the Information Commissioner's Office)

As stated above, the framework of assurance comprises a variety of sources and not only the Council's internal audit service. However, Internal Audit holds a unique role within a local authority as the only independent source of assurance on all internal controls. Internal Audit is therefore central to this framework of assurance and is required to acquire an understanding not only of the Council's risks and its overall whole control environment but also all sources of assurance where appropriate, and where possible this is captured in the regular Strategic Assurance Map that is presented to the Audit and Risk Committee.

In this way, Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. Also, consideration of the Council's ethics and activities, and the information technology governance is implicit in all internal audit activity.

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

Executive Summary

As the providers of internal audit to the council, we are required to provide the Chief Executive and Section 151 Officer with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Chief Executive and Section 151 Officer is reasonable assurance that there are no major weaknesses in the council's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2020 (taking into our Covid-19 statement included in our annual opinion below)
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The Council's Strategic Risk Register and Assurance Map as presented regularly to the Audit and Risk Committee.

Internal Audit Opinion

We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes.

Covid-19

Towards the end of the year, and in response to Covid-19 the internal audit team were redeployed to either the food distribution hub or to work on the small business grant team, set up in order to process and distribute the grant payments under the scheme introduced by the Government. As a result of this, a number of audits that were underway at the time of the outbreak, had to be put on hold and therefore were unable to feed into this opinion. Therefore, while we need to caveat our opinion with this, we do believe that we managed to complete sufficient work pre-outbreak, in order to support our opinion and to inform the Annual Governance Statement. These reviews will be revisited as soon as possible and consideration given to either cancelling, re-starting or rolling them over into future audits, dependent upon both the changing risk profile and the immediate needs of the Council during the reset and recovery period. We will keep the Audit and Risk Committee up to date on how this progresses.

In reaching our opinion, the following factors were taken into particular consideration:

- We have had unfettered access to all records and employees during 2019-2020.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed later in this report.
- While stand-alone reviews of governance and risk management are not undertaken, consideration of both these issues are implicit in all internal audit work. Similarly, assurance is gained from the regular review of the Council's Strategic Risk Register as presented at each meeting of the Audit and Risk Committee, and through the 'calling-in' of certain risks by the committee for a more detailed review.
- Our statement on Covid-19 included in the above audit opinion.

Throughout the year we did also note a number of key control issues, either through our work or in the preparation of the Annual Governance Statement, and these are listed below.

While not fundamental to the overall opinion, we gave a **'limited assurance'** rating as a result of our internal audit work in the following areas:

• Fire Safety in Council Buildings
• Fleet Services – Vehicle Spares & Stock Management
• Business Continuity Arrangements Employee Driver Checks
• Employee Driver Checks

Further details on each of these limited assurance reports were presented to the Audit and Risk Committee throughout the year, and can be found on the Council's website.

Governance issues arising from the Annual Governance Statement

The Council recognises that the identification, evaluation and monitoring of risks is a key aspect in the governance of the organisation. The following matters represent the most significant current governance issues that are subject to attention in order to ensure that good practice is embedded:

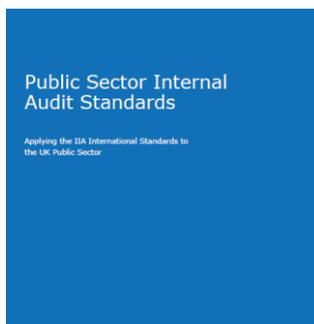
• Savings targets
• Procurement, Contract Management and Monitoring
• Strategic Asset Plan
• Civic Halls
• GDPR

Further details on each of these can be found in the 2019-2020 Annual Governance Statement.

Key risks the Council faces

The key risks the Council faces in delivering its outcomes are captured in a Strategic Risk Register which is updated as and when the risk profile of the Council changes, and is reported to the Audit and Risk Committee on a regular basis.

Compliance with the Public Sector Internal Audit Standards



The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the Audit and Risk Committee. The quality assurance and improvement programme and accompanying self-assessment identified no major non-conformances with these standards. This was confirmed through the results on an independent valuation of the self-assessment exercise commissioned by, and reported through the Audit and Risk Committee in 2018. Therefore, the internal audit activity is able to confirm conformance with the international standards for the professional practice of internal auditing.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer will be asked to respond to the report by completing and returning an action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Year on year comparison

A total of 31 pieces of audit work have been completed during the year in which an audit opinion has been given. A summary of the audit opinions given, along with a comparison over previous years, is set out below:

Opinion	2019-2020	2018-2019	2017-2018
Substantial	9	18	17
Satisfactory	18	23	21
Limited	4	6	9

Direction of travel

As can be seen the number and of Limited Assurance levels of assurance has reduced when compared to the previous two years (albeit it against a reduced number of audits in 2019-2020).

2 Summary of audit reviews completed

The following audit reviews were completed during the 2019-2020 financial year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Previously reported:							
Fixed Assets	High	-	1	-	1	1	Satisfactory
Wolves @ Work	Medium	-	1	1	2	2	Substantial
Senior Officer Remuneration	High	-	-	-	-	-	N/A
Long Knowle Primary School	Medium	-	7	10	17	17	Satisfactory
St. Patrick's Primary School	Medium	-	6	5	11	11	Satisfactory
Warstones Primary School	Medium	-	8	6	14	14	Satisfactory
Fire Safety in Council Buildings	Medium	2	5	2	9	9	Limited
Use of cash within Children's Services	Medium	-	2	6	8	8	Satisfactory
Mental Health – Section 117 Aftercare	Medium	-	7	3	10	10	Satisfactory
Fleet Services – Vehicle Spares & Stock Management	Medium	1	1	4	6	6	Limited
Carbon Reduction Credits Submission Verification	Medium	-	1	-	1	1	Satisfactory
Human Resources – I.T Systems	Medium	-	-	-	-	-	N/A
Business Continuity Arrangements	N/A	-	9	-	9	9	Limited
WMPF – Contribution Statements	High	-	-	1	1	1	Substantial
ICT – Management of I.T. Assets	Medium	-	5	2	7	7	Satisfactory
Quarter 1 – Troubled Families Grant Certification	Medium	-	-	-	-	-	Grant Certification
Quarter 2 – Troubled Families Grant Certification	Medium	-	-	-	-	-	Grant Certification

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
2018-2019 Transport Grant Certification	Medium	-	-	-	-	-	Grant Certification
Kings Secondary School	Medium	-	6	4	10	10	Satisfactory
St. Matthias Secondary School	Medium	-	7	7	14	14	Satisfactory
Green Park Special School	Medium	-	-	1	1	1	Substantial
Little Village Nurseries (two visits)	Medium	-	4	1	5	5	Substantial
Bilston CE Primary School	Medium	-	1	2	3	3	Substantial
St Andrews Primary School	Medium	-	2	1	3	3	Substantial
Employee Driver Checks	Medium	2	4	1	7	7	Limited
GDPR Update	Medium	-	3	4	7	7	Satisfactory
Quarter 3 - Troubled Families Grant Certification	Medium	-	-	-	-	-	Grant Certification
Equipment Stores	Medium	-	8	10	18	18	Satisfactory
Reported this quarter for the first time:							
Terms & Condition Changes	Medium	-	-	3	3	3	Substantial
Payroll (3 rd Party Deductions)	High	-	-	2	2	2	Substantial
Treasury Management	High	-	-	2	2	2	Substantial
St. Paul's Primary School	Medium	-	4	2	6	6	Satisfactory
Modern Day Slavery	Medium	-	3	5	8	8	Satisfactory
CYP Subsistence & Mileage Payments	Medium	-	2	1	3	3	Satisfactory
End of Year Return – Troubled Families Grant Cert.	Medium	-	-	-	-	-	Grant Certification
Adult Education – Safeguarding & Safer Recruitment	Medium	-	17	4	21	21	Satisfactory

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
City North Gateway (M54 Junction 2) Project	High	-	2	1	3	3	Satisfactory
Licensing (Private Hire)	Medium		2	1	3	3	Satisfactory

Key:

AAN - Assessment of assurance need.

N/A - Consultancy type assignments where an opinion on the control environment is not the main focus of a review.

3 *On-going assurance work where reports are not issued*

It is a requirement of the Internal Audit Charter that Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement. Therefore, should any reviews be conducted on the below, then they will be lead by another member of the audit team.

Project/Programme	In the original audit plan?	Audit Service's Role
Equal Pay	Yes	A member of the audit team is embedded in the project to provide advice on project governance and management of risks associated with the management of equal pay claims. Audit assurance is also provided around the calculation of settlement offers and the payment of claims.
Information Governance	Yes	A member of the team sits on the Council's Information Governance Board in the capacity of providing advice and support.
Commercial Business Improvement Programme (formerly Digital Transformation Programme)	Yes	A member of the team takes part in the programme in a project assurance capacity. During the lifecycle of the programme on-going advice is provided on the governance of the programme and the management of associated risks.
Pay Strategy	Yes	A member of the team sits on the Council's Pay Strategy Board. The purpose of the board is to ensure that all requests in respect pay and grading is approved in accordance with the Council's Collective Agreement for NJC employees.
Project Assurance Group	Yes	A member of the team is involved in this group. The purpose of the group is to ensure that all of the Council's projects and programmes, recorded through the Verto system, are reviewed and scrutinised.

Project/Programme	In the original audit plan?	Audit Service's Role
WV Active Improvement Programme	Yes	A member of the team is represented on the programme board. During the lifecycle of the programme on-going advice is provided on the governance of the programme and the management of associated risks.
Delivering Independent Travel Programme	Yes	A member of the team sits on the Programme Board as an Independent Programme Lead. During the lifecycle of the programme on-going advice is provided on the governance, risk management and, programme and project management arrangements.
Schools Fire Safety Working Group	Yes	A member of the team sits on the Board in the capacity of providing advice and support. The programme's main objective is to rectify the specification of fire doors in newly built PFI schools.
Business Support Programme	Yes	A member of the team sits on the Board in the capacity of providing advice and support. The programme's main objective is the centralisation of administration within the Council.
City Learning Quarter Programme	Yes	Audit Services have been invited to provide an assurance role for the programme. This is a major capital investment project which has a reputational risk to the Council.
Agresso Board	Yes	A member of the team sits on this Board to oversee the on-going development of the Council's enterprise resource planning (ERP) solution.
Children's Transformation Board	Yes	A member of the team attends the Board and provides support and assurance on project management arrangements and specific audit issues.
Transform Adult Social Care Programme	New	A member of the team has been attending the Board from September 2019 to provide support and assurance on project management arrangements and specific audit issues.
Transport Asset Group	New	A member of the team is involved in this group. The purpose of the group is to ensure that business cases submitted by business areas for vehicles and equipment replacement are reviewed and assessed prior to approval, as well as addressing future Council Fleet requirements and climate targets for a cleaner environment and reduction in carbon emissions, and future use of electric / hybrid vehicles.

Project/Programme	In the original audit plan?	Audit Service's Role
HR Improvement Programme	New	The purpose of this programme is to review current Human Resource systems, processes and procedures to drive out efficient service improvements. A member of the team sits on the Board to provide support and assurance around changes proposed in order to ensure risks are managed and controls are not compromised.
Civic Halls Operational Board	New	A member of the team is a representative on this group. The purpose of the board is to oversee the operational delivery of the Civic Halls full refurbishment.
Infrastructure for Growth Board	New	The purpose of this group is to oversee the strategy of regeneration projects across the city to ensure there is a co-ordinated joined up approach. A member of the team is present on this board to provide support and assurance around governance.

4 *Key issues arising from our work completed during the year*

During the year we brought the following matters to the attention of the Committee in January 2020, in our quarter 2 update report

- Fire Safety in Council Buildings
- Business Continuity Arrangements
- Fleet Services – Vehicle Spares and Stock Management

We brought the following matters to the attention of the Committee in March 2020, in our quarter 3 report

- Employee Driver Checks

Quarter 4: the following is being brought to the attention of the Committee for the first time

While there were no limited assurance reports issued during the final quarter of the year (quarter 4) the Audit and Risk Committee may wish to be aware of the following

Modern Day Slavery

Councils have a key role to play in tackling modern slavery. Our audit aimed to provide assurance that systems in place were compliant with the Modern Slavery Act 2015, including the identification and referral of victims, provision of support, engagement in community safety and disruption activities and ensuring council supply chains are protected.

This audit was given a satisfactory opinion. During our work we acknowledged that the Council had promoted anti-slavery, including the publication of a modern slavery statement and actively engaged with the Wolverhampton and Walsall Anti-Slavery Partnership to identify and support victims of modern slavery in a multi-agency and collaborative way. Further, referral of victims takes place to the to notify the Home Office in accordance with defined pathways.

However, we identified that a formalised Council policy was not in place to govern the approach to modern slavery. Also, arrangements were yet to be introduced to identify contracts being procured that may represent a high risk of modern slavery activity and reporting arrangements needed enhancement regarding the number of referrals to the Council's Modern Slavery Lead. Face to face training had also not been delivered to all priority teams within the Council. All of our recommendations were accepted by management and will be reviewed as part of our follow up work.

Lawnswood Campus

Lawnswood Campus is home to three Pupil Referral Units serving the schools and City of Wolverhampton as part of a city-wide strategy to promote inclusion and positive behaviour in safe, secure, child centred, positive and nurturing environments. We were asked by the new Executive Headteacher to undertake a review of the financial and governance processes at the campus. This highlighted a number of issues regarding the Management Board's role in the governance arrangements and in overseeing the financial performance of the school. Following this, an action plan has been produced and these issues are being addressed by the Executive Headteacher with support from the Local Authority's school improvement service.

Follow up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit and Risk Committee. During this quarter we have followed up recommendations in respect of our previous review of the Rainbow Nursery and action was being taken in order to implement these.

5 *Changes to the Audit Plan during the year*

Audit Area (as was in place during 2019-2020)	Audit related pieces of work in the initial plan	Audit related pieces of work added or removed during the year	Revised number of audit related pieces of work
Corporate	6	(3)	3
Finance (incl. key financial systems)	12	(1)	11
Governance	4	(2)	2
Communications & External Relations	-	-	-
Human Resources	2	-	2
Business Improvement	2	1	3
Strategy	1	(1)	-
Education (incl. Schools audits)	14	(3)	11
Children Services	8	(1)	7
Adult Services	4	(1)	3
Public Health	2	-	2
Regeneration	3	(1)	2
City Environment	4	1	5
City Assets & Housing	4	(3)	1
Total	66	(14)	52

During the year these changes to the audit plan were brought to the attention of the Audit and Risk Committee through our quarterly update reports.

The audit cycle of reviews and visits tends to run from June to May of each year, with the first month or so of each new financial year focused upon completing a number of the previous years reviews. As referred to in our audit opinion earlier in this report, a number of such reviews were unable to be completed from March 2020 onwards due to the result of responding to Covid-19. These were:

Key Financial Systems:

- Main Accounting System
- Accounts Receivable

Planned Systems Audits:

- Bilston Urban Village
- Garden Waste Service

- Fixed Assets
- Housing Benefits
- Housing Rents
- Local Taxes (Council Tax and NNDR)
- SEND Safer Recruitment & Single Central Register

As can be seen, a number of these reviews relate to Key Financial Systems. In their absence a level of assurance can be taken from the fact that as by their very nature key areas within these systems are reviewed on an annual basis, were subject to review in the previous year and no major areas of concerns had been raised at that time.

Also, indicated earlier in this report, these reviews will be revisited as soon as possible and consideration given to either cancelling, re-starting or rolling them over into future audits, dependent upon both the changing risk profile and the immediate needs of the Council during the reset and recovery period. We will keep the Audit and Risk Committee up to date on how this progresses.

6 *Audit and assurance effectiveness measures*

Our performance against the following Audit and Assurance effectiveness measures, that were prepared around the successful delivery of the audit service, is as follows:

Audit Plan measures	
Audit reports identifying suggested areas for action, issued to auditees within two weeks of completion of fieldwork.	Approximately 75% of audit reports were issued within two weeks of the completion of audit fieldwork.
Number of audits where time taken to complete assignment is more than 10% longer than planned.	Approximately 40% of reviews took 10% longer than anticipated, with the others completed either on target or under. In the majority of instances, reasons for audit work exceeding budget is that unforeseen issues arise which take time to resolve. However, we will continue to seek to improve on the time taken in completing such reviews.
Delivery of at least 80% of the audit plan, and an opinion which provides suitable assurance on the overall governance, risk management and control environment.	The audit plan was subject to revision during the course of the year in order to take account of emerging issues and a changing risk profile, and in responding to Covid-19. Based on the revised number of audits as at 31 March 2020, 80% of the plan had been delivered. Section 5 of this report provides details of the plan changes agreed during the year, as well as those audits started but then put on hold as a result of the impact of Covid-19.
Risk Based Audit Plan produced and available to the Council in advance of the year.	The Audit Plan was approved by the Audit and Risk Committee prior to the commencement of the new plan year.

Recommendations measures	
90% of recommendations accepted by Council management.	All recommendations made in the year were accepted by Council management.
Number of key recommendations followed up, implemented by the council by the target date.	The majority of previous key recommendations followed up had been implemented within the agreed date. Where not, these have been reported back to the Audit and Risk Committee throughout the year.
Relationships measure	
Positive feedback from completed client satisfaction surveys and other sources.	The majority of feedback was of a positive nature.
External Audit measure	
External Audit use the work of internal audit to help inform their own work.	No issues have been raised by the External Auditors on the work of Internal Audit.

7 *Key Partnerships*

The City Council's Audit Service also provide the internal audit service for:

- West Midlands Pension Fund
- West Midlands Combined Authority
- Wolverhampton Homes
- WV Living